Annual Report 1971

DOMTAR

Contents

Legal Deposit 1st quarter 1972
Quebec National Library

Domtar Limited

Shareholder news

and consolidated statements of net income and of source and application of funds for the six months ended June 30, 1971

DOMTAR

NEWS BRIEFS

Pictured below is the new addition to the Cornwall "No-Co-Rode"* plant of Domtar Construction Materials Ltd. where a new product in the Domtar line—"CEL-U-CON 25"* roofboard—will be produced.

Built at a cost of some $2 million, the plant was financed in part through a forgivable loan from the Ontario Development Corporation. It is tentatively scheduled to open about the beginning of August of this year. Measuring approximately 540 feet long by 70 feet wide, the plant covers an area of 38,000 square feet. The operation will enjoy the economic advantages of being integrated with parts of the "No-Co-Rode" pipe production facilities and buildings and will allow the joint use of personnel.

"CEL-U-CON 25", a non-combustible roofboard, will be the first product of its kind to be manufactured in Canada. In view of industry's continuing demands for fire retardant materials, a similar product of American manufacture has been capturing an increasingly large share of the roofing market. It has found favour with specifiers, roofers and owners on its own merits as it is considered to be inorganic or non-rotting and moisture resistant, is of low density, and has high dimensional stability and good thermal characteristics. In the United States, this product is estimated to enjoy approximately 30% of the market.

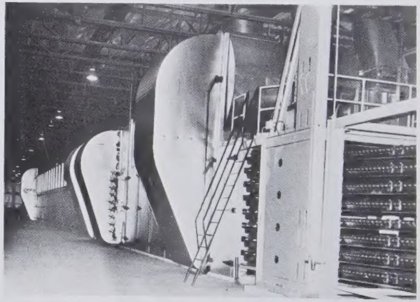
"CEL-U-CON 25" roofboard is an insulating material produced from a combination of approximately sixty percent perlite and forty percent reclaimed fibre, asphalt and alum. Perlite is essentially an ore which, when heated, expands and forms into tiny beads that are inert and fireproof.

While much of the machinery and equipment is automated, the plant will immediately require thirteen employees. Eventually, employment for thirty-nine will be provided

Major equipment at the plant consists of an expander, pulper, additive systems, continuous blender, board former, dryer and unloading and storage systems. The plant will be able to turn out annually upwards of 32.5 million feet board measure.

Early distribution is intended for Eastern Canada.

*"CEL-U-CON 25" and "No-Co-Rode" are Domtar Limited trade marks.



Shown above are the drying facilities of the plant.

Lithographed on DOMTAR "Plainfield" offset, brite white—160M

Domtar Limited
and subsidiary companies

DOMTAR

Consolidated Statement of Net Income

(Unaudited)
(millions of dollars)

	Quarter ended June 30		Six Months ended June 30	
	1971	1970	1971	1970
Sales and revenues:				
Sales	$129.0	$120.9	$248.6	$232.6
Investment and sundry income	0.5	1.8	1.2	3.5
	129.5	122.7	249.8	236.1
Costs and expenses:				
Cost of sales and selling and administrative expenses	115.7	105.8	224.5	203.9
Depreciation and depletion	6.5	6.8	13.1	13.5
Interest on indebtedness	2.2	2.2	4.4	4.5
	124.4	114.8	242.0	221.9
Income before income taxes and minority interest	5.1	7.9	7.8	14.2
Current income taxes	1.7	1.9	2.8	4.4
Deferred income taxes	0.7	0.8	0.7	0.1
Minority interest	0.2	0.3	0.5	0.6
	2.6	3.0	4.0	5.1
Net income	$ 2.5	$ 4.9	$ 3.8	$ 9.1
Per common share (after preferred dividends)— in dollars:				
Net income	$ 0.16	$ 0.33	$ 0.25	$ 0.61
Cash flow	$ 0.64	$ 0.83	$ 1.17	$ 1.52

Consolidated Statement of Source and Application of Funds

(Unaudited)
(millions of dollars)

	Six Months ended June 30	
	1971	1970
Source of funds:		
Net income	$ 3.8	$ 9.1
Depreciation and depletion	13.1	13.5
Deferred income taxes	0.7	0.1
	17.6	22.7
Reduction in investments and advances	0.7	0.7
Disposal of fixed assets	–	0.5
	18.3	23.9
Application of funds:		
Fixed assets	13.8	19.2
Dividends on preference shares	0.2	0.2
Dividends on common shares	4.4	5.9
Reduction in funded debt	9.7	2.8
Reduction in minority interests	0.4	0.8
	28.5	28.9
Decrease in working capital	10.2	5.0
Working capital at beginning of period	132.0	146.6
Working capital at end of period	$121.8	$141.6

Domtar Limitée

bulletin des actionnaires

et états consolidés du revenu net et de provenance et d'emploi des fonds pour les six mois terminés le 30 juin 1971

DOMTAR

NOUVELLES

La photo ci-dessous montre le nouvel agrandissement à l'usine "No-Co-Rode"* de Cornwall, des Matériaux de construction Domtar Ltée, qui permettra de fabriquer un nouveau produit de la gamme Domtar, le revêtement pour toitures "CEL-U-CON 25"*.

Construite au coût d'environ $2 millions, l'usine a été en partie financée par un prêt non remboursable de l'Ontario Development Corporation. Son ouverture est prévue pour le début du mois d'août prochain. L'usine qui mesure approximativement 540 pieds de long sur 70 pieds de large, couvre une surface de 38 000 pi^2. Son exploitation bénéficiera des avantages économiques provenant de son intégration à certains ensembles des installations et bâtiments servant à la production des tuyaux "No-Co-Rode" et permettra l'usage conjoint du personnel.

Le revêtement pour toitures non combustible "CEL-U-CON 25" sera le premier produit de ce genre à être fabriqué au Canada. Par suite de la demande sans cesse croissante de l'industrie pour des matériaux ignifuges, un produit semblable, de fabrication américaine, a pris une part de plus en plus importante du marché des toitures. Ce produit est grandement apprécié par les normalisateurs, les couvreurs et les propriétaires pour ses mérites propres car il est considéré comme étant inorganique ou imputrescible et étanche à l'humidité. C'est un matériau de faible densité doté d'une grande stabilité dimensionnelle et d'excellentes propriétés thermiques. Aux Etats-Unis, on considère que ce produit a conquis environ 30% du marché correspondant.

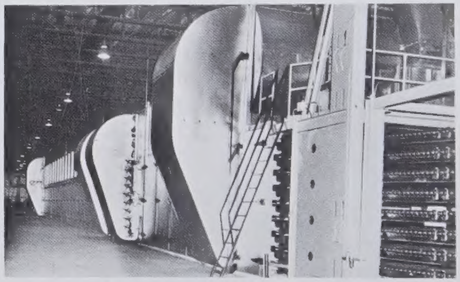
Le revêtement pour toitures "CEL-U-CON 25" est un matériau isolant formé par le mélange d'environ 60% de perlite et de 40% de fibres recyclées, d'asphalte et d'alun. La perlite, par elle-même, est essentiellement un minerai schisteux constitué d'une qualité particulière de sable qui, lorsqu'il est chauffé, forme de petits grains inertes et incombustibles.

Bien que la machinerie et l'équipement soient automatisés, l'usine aura immédiatement besoin de 13 employés. Par la suite, son personnel pourra être porté à 39 personnes.

L'équipement principal de l'usine comprend un four, un broyeur, des systèmes d'addition, un mélangeur en continu, une machine à former les panneaux, un séchoir et des dispositifs de déchargement et d'entreposage. L'usine pourra produire annuellement plus de 32.5 millions de pieds de revêtement pour toitures.

Pour le début, il est prévu de ne distribuer la fabrication que dans l'Est du Canada.

*"CEL-U-CON 25" et "No-Co-Rode" sont deux marques de commerce de Domtar Limitée.



L'illustration ci-dessus montre les installations de séchage de l'usine.

Lithographié sur DOMTAR "Plainfield" offset, blanc ancienne nuance—160M

Domtar Limitée
et ses filiales

AR43

DOMTAR

Etat consolidé du revenu net

(Non vérifié)
(millions de dollars)

	Trimestre terminé le 30 juin 1971	Trimestre terminé le 30 juin 1970	Semestre terminé le 30 juin 1971	Semestre terminé le 30 juin 1970
Ventes et revenus:				
Ventes	$129.0	$120.9	$248.6	$232.6
Revenus de placement et divers	0.5	1.8	1.2	3.5
	129.5	122.7	249.8	236.1
Coûts et dépenses:				
Coûts des ventes, frais de vente et d'administration	115.7	105.8	224.5	203.9
Amortissement et épuisement	6.5	6.8	13.1	13.5
Intérêt sur dettes	2.2	2.2	4.4	4.5
	124.4	114.8	242.0	221.9
Revenu avant les impôts sur le revenu et les intérêts minoritaires	5.1	7.9	7.8	14.2
Impôts sur le revenu pour la période	1.7	1.9	2.8	4.4
Impôts sur le revenu différés	0.7	0.8	0.7	0.1
Intérêts minoritaires	0.2	0.3	0.5	0.6
	2.6	3.0	4.0	5.1
Revenu net	$ 2.5	$ 4.9	$ 3.8	$ 9.1
Par action ordinaire (après déduction des dividendes sur les actions privilégiées)—en dollars:				
Revenu net	$ 0.16	$ 0.33	$ 0.25	$ 0.61
Autofinancement global	$ 0.64	$ 0.83	$ 1.17	$ 1.52

Etat consolidé de provenance et d'emploi des fonds

(Non vérifié)
(millions de dollars)

	Semestre terminé le 30 juin 1971	Semestre terminé le 30 juin 1970
Provenance des fonds:		
Revenu net	$ 3.8	$ 9.1
Amortissement et épuisement	13.1	13.5
Impôts sur le revenu différés	0.7	0.1
	17.6	22.7
Diminution des investissements et avances	0.7	0.7
Dispositions d'immobilisations	–	0.5
	18.3	23.9
Emploi des fonds:		
Immobilisations	13.8	19.2
Dividendes sur actions privilégiées	0.2	0.2
Dividendes sur actions ordinaires	4.4	5.9
Diminution de la dette à long terme	9.7	2.8
Diminution des intérêts minoritaires	0.4	0.8
	28.5	28.9
Décroissance du fonds de roulement	10.2	5.0
Fonds de roulement au début de la période	132.0	146.6
Fonds de roulement à la fin de la période	$121.8	$141.6

DOMTAR Domtar Limited

NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT an Annual and Special General Meeting of the Shareholders of DOMTAR LIMITED will be held in Windsor Hall of the Windsor Hotel, Dominion Square, Montreal, Quebec on Tuesday, the 27th day of April, 1971 at 4:00 o'clock in the afternoon for the purposes of:

1. considering and, if deemed advisable, sanctioning and confirming, with or without modification, By-law Twenty-nine which was passed by the Board of Directors decreasing the number of Directors of the Company from twenty-one (21) to twenty (20);
2. receiving and considering the Report of the Directors to the Shareholders, the financial statements of the Company for the year ended December 31, 1970 and the Auditors' Report thereon;
3. electing Directors;
4. appointing Auditors for the ensuing year; and
5. transacting such other business as may properly be brought before the meeting.

By Order of the Board,

S. A. KERR, C.A., F.C.I.S.
Vice-President and Secretary

Montreal, Quebec,
March 12, 1971.

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AND THAT YOUR WISHES BE MADE KNOWN. IF YOU CANNOT BE PRESENT TO VOTE IN PERSON, WOULD YOU PLEASE COMPLETE AND SIGN THE ENCLOSED PROXY FORM AND RETURN IT AS SOON AS POSSIBLE IN THE ENVELOPE PROVIDED.

INFORMATION CIRCULAR

(The information given herein is as of February 19, 1971)

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of Domtar Limited (the Company) of proxies for use at the Annual and Special General Meeting of the Shareholders of the Company to be held on April 27, 1971. The cost of solicitation will be borne by the Company.

VOTING AT THE MEETING

On February 19, 1971 the Company had outstanding 14,827,300 common shares without nominal or par value. The holders of such shares are entitled to one vote for each such share held.

Only shareholders of record as at the close of business on April 9, 1971 will be entitled to vote at and take part in the business of the meeting.

Argus Corporation Limited is the beneficial owner of record of more than 10% of the outstanding common shares of the Company, owning 2,500,000 common shares or 16.9% as at February 19, 1971.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors and/or officers of the Company. **A shareholder desiring to appoint some other person (who need not himself be a shareholder but in the case of a corporation a person must have been duly authorized to act at the meeting) to represent him at the meeting may do so,** either by inserting such person's name in the blank space provided in the form of proxy and deleting the names printed thereon or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company prior to the meeting.

A shareholder who signs and returns the enclosed form of proxy may revoke it at any time by notice in writing to the Company before it is acted upon.

CONFIRMATION OF BY-LAW TWENTY-NINE

By-law Twenty-nine will be submitted to the shareholders for sanction and confirmation at the meeting. Approval of this by-law will reduce the number of directors of the Company from twenty-one (21) to twenty (20).

VOTING OF SHARES REPRESENTED BY MANAGEMENT PROXY

The shares represented by any proxy in the form enclosed herewith and appointing the persons designated thereon or any of them to represent the shareholder at the meeting will be voted in accordance with the specifications given by the shareholder. IN THE ABSENCE OF SUCH SPECIFICATIONS, SUCH SHARES WILL BE VOTED FOR THE APPROVAL OF BY-LAW TWENTY-NINE, FOR THE APPROVAL OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS, FOR THE ELECTION OF DIRECTORS AND FOR THE APPOINTMENT OF AUDITORS AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of the Meeting. The management is not aware of any other matters which will be presented for action at the meeting. If, however, other matters properly come before the meeting, the persons designated in the enclosed form of proxy will vote thereon in accordance with their judgment pursuant to the discretionary authority conferred by the proxy with respect to such matters.

ELECTION OF DIRECTORS

If By-law Twenty-nine is sanctioned and confirmed, the Board of Directors will consist of twenty members, all of whom are required to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below. Each director will be elected to hold office until the next Annual General Meeting of the Shareholders or until his successor is duly elected. In the event that prior to the Annual and Special General Meeting any vacancies occur in the slate of nominees submitted herewith, it is intended that the discretionary power granted by the form of proxy shall be used to vote for any other person or persons as directors. The management is not aware that any of such nominees would be unwilling to serve if elected.

The following persons are proposed to be nominated for election as directors of the Company:

Name	Present principal occupation or employment and principal occupation or employment within the five preceding years	Director since	Shares of the Company beneficially owned directly or indirectly as of February 19, 1971
Alex E. Barron	Chairman of the Board of Canadian Tire Corporation Limited since June 17, 1966. President of Canadian General Investments Limited since March 26, 1970. Vice-President of Canadian General Investments Limited from November 13, 1959 to March 26, 1970.	—	500 common shares
*T. N. Beaupré	Chairman of the Board and President of Domtar Limited	1965	6,000 common shares
Ralph W. Cooper	President of Cooper Construction Company Limited	1959	1,700 common shares
*H. Roy Crabtree	Chairman and President of Wabasso Limited	1958	41,500 common shares
George H. Dobbie	President of The Dobbie Industries Limited	1959	200 common shares
†J. E. L. Duquet, Q.C.	Senior partner in the legal firm of Duquet, MacKay, Weldon, Bronstetter, Willis and Johnston	1961	814 common shares
*A. L. Fairley, Jr.	Chairman of the Executive Committee of the Board of Directors of Domtar Limited. President and Chief Executive Officer of Hollinger Mines Limited	1967	100 common shares
C. L. Gundy	Chairman of Wood Gundy Securities Limited	1958	1,000 common shares
Roger T. Hager	Chairman of the Board of The Canadian Fishing Company Limited	1959	115 common shares
J. G. Kirkpatrick, Q.C.	Partner in the legal firm of Ogilvy, Cope, Porteous, Hansard, Marler, Montgomery & Renault	1954	910 common shares
Camille Lacroix	President of Matapedia Company Limited	1968	1,000 common shares
Roger Létourneau, Q.C.	Senior Partner in the legal firm of Létourneau, Stein, Marseille, Delisle & LaRue	1965	100 common shares
*A. Bruce Matthews, C.B.E., D.S.O.	Chairman of The Excelsior Life Insurance Company	1966	500 common shares
†*John A. McDougald	President of Argus Corporation Limited	1951	2,652 common shares
*Maxwell C. G. Meighen, O.B.E.	Chairman of the Board of Canadian General Investments Limited	1964	1,000 common shares
Nathan Pitcairn	Director of The Pitcairn Company	1961	21,000 common shares
*Arthur Ross	Executive Vice-President and Managing Director of Central National Corporation	1961	500 common shares
*J. N. Swinden	General Manager of Argus Corporation Limited	1961	725 common shares
J. Thomas Timmins	President of Chromium Mining & Smelting Corp. Ltd.	1966	100 common shares
*Colin W. Webster	Vice-Chairman of the Board of Canadian Fuel Marketers Ltd.	1952	20,000 common shares

*Members of Executive Committee

†The following directors own shares of St. Lawrence Corporation Limited, a subsidiary of Domtar Limited.

J. E. L. Duquet, Q.C.	8 common shares
John A. McDougald	100 common shares

REMUNERATION OF MANAGEMENT AND OTHERS

During the financial year of the Company ended December 31, 1970 the aggregate direct remuneration paid or payable by the Company and its consolidated subsidiaries to the directors and the senior officers of the Company was $986,608.44. No amount was paid or is payable as direct remuneration to such directors or senior officers by unconsolidated subsidiaries of the Company.

The estimated aggregate cost to the Company and its subsidiaries in the financial year of the Company ended December 31, 1970 of all pension benefits proposed to be paid under any normal pension plan or plans in the event of retirement at normal retirement age, directly or indirectly, by the Company or any of its subsidiaries to the directors and senior officers of the Company was $38,864.70.

Pursuant to any existing plan or arrangement, the aggregate of the future payments proposed to be made directly or indirectly by the Company and its subsidiaries to its directors and senior officers, while employed by the Company or its subsidiaries, is estimated to be $250,000.00 per year up to a maximum of five years and thereafter $110,000.00 per year up to a maximum of an additional eight

years, and following termination of employment annual payments which, when added to the aggregate of all amounts payable under normal retirement or pension plans of the Company and its subsidiaries, will total $75,359.56 if termination occurs prior to December 31, 1971 increasing to a maximum of $160,957.95 if employment continues to normal retirement age and all said benefiting directors and senior officers are then alive.

APPOINTMENT OF AUDITORS

The management of the Company proposes to nominate Messrs. Price Waterhouse & Co., the present auditors, as auditors of the Company to hold office until the next Annual General Meeting of the Shareholders. It is intended that the shares represented by proxies solicited by and on behalf of the management of the Company will be voted in favour of the appointment of Messrs. Price Waterhouse & Co. as auditors of the Company.

Les actionnaires qui préféreraient recevoir leur circulaire d'information en français n'ont qu'à en aviser le Secrétaire de Domtar Limitée.

Highlights

	1971	1970
Sales	$516,376,401	$484,937,840
Income taxes — Current	$ 4,550,000	$ 10,350,000
Income taxes — Deferred	$ 4,430,000	$ (1,084,000)
Net income before extraordinary items	$ 10,500,439	$ 17,617,645
Net income after extraordinary items	$ 1,800,439	$ 17,617,645
Common shares outstanding	14,827,300	14,827,300
Earnings per common share before extraordinary items	$ 0.67	$ 1.17
Earnings per common share after extraordinary items	$ 0.08	$ 1.17
Dividends per common share	$ 0.60	$ 0.70
Working capital	$124,220,727	$132,024,614
Cash flow — Total	$ 41,037,488	$ 42,779,065
Cash flow — Per common share	$ 2.73	$ 2.86
Expenditures on plant	$ 23,655,786	$ 38,964,137
Book value per common share	$ 15.37	$ 15.87
Number of preference shareholders	1,775	1,384
Number of common shareholders	39,027	42,112
Number of employees	17,607	18,561
Payroll and Benefits	$167,364,000	$159,748,000

Directors and Officers

Directors

*A. E. Barron, Toronto,
Chairman of the Board, Canadian Tire Corporation Limited

*T. N. Beaupré, Montreal,
Chairman of the Board and President, Domtar Limited

Ralph W. Cooper, Hamilton,
President, Cooper Construction Company Limited

*H. Roy Crabtree, Montreal,
Chairman and President, Wabasso Limited

J. E. L. Duquet, Q.C., Montreal,
Senior Partner in the legal firm of Duquet, MacKay, Weldon, Bronstetter and Johnston

*A. L. Fairley, Jr., Montreal,
President and Chief Executive Officer, Hollinger Mines Limited

C. L. Gundy, Toronto,
Chairman, Wood Gundy Limited

Roger T. Hager, Vancouver,
Chairman of the Board and Chief Executive Officer, The Canadian Fishing Company Limited

J. G. Kirkpatrick, Q.C., Montreal,
Partner in the legal firm of Ogilvy, Cope, Porteous, Hansard, Marler, Montgomery & Renault

Camille Lacroix, St. Romuald, Quebec,
President, Matapedia Company Limited

Roger Létourneau, Q.C., LL.D., Quebec,
Senior Partner in the legal firm of Létourneau, Stein, Marseille, Delisle & LaRue

*A. Bruce Matthews, C.B.E., D.S.O., Toronto,
Chairman, The Excelsior Life Insurance Company

*John A. McDougald, Toronto,
Chairman and President, Argus Corporation Limited

*Maxwell C. G. Meighen, O.B.E., Toronto,
Chairman, Canadian General Investments Limited

Nathan Pitcairn, Jenkintown, Pa.,
Director, The Pitcairn Company

*Arthur Ross, New York,
Executive Vice-President and Managing Director, Central National Corporation

*J. N. Swinden, Toronto,
General Manager, Argus Corporation Limited

J. Thomas Timmins, Montreal,
President, Chromasco Corporation Limited

*Colin W. Webster, Montreal,
Vice-Chairman of the Board, Canadian Fuel Marketers Ltd.

*Members of the Executive Committee

Officers

T. N. Beaupré,
Chairman of the Board and President

S. A. Kerr,
Vice-President — Administration and Secretary

J. P. Lunderville,
Vice-President — Engineering, Purchasing and Transportation

R. J. Moyse,
Vice-President — Finance

G. H. Tomlinson,
Vice-President — Research and Environmental Technology

G. M. Drodge,
Controller

C. A. Brooke,
Treasurer

E. G. Aust,
Assistant Treasurer

A. Gascon,
Assistant Secretary

Group Presidents

J. Cochran,
Domtar Construction Materials Ltd.

A. D. Hamilton,
Domtar Pulp & Paper Products Ltd.

A. Monsaroff,
Domtar Chemicals Limited

Head Office

395 de Maisonneuve Blvd. West, Montreal 111, Que.

Transfer Agents

for preference and common shares:
Montreal Trust Company — Halifax, N.S.; Saint John, N.B.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man., Regina, Sask.; Calgary, Alta.; Vancouver, B.C.

for common shares only:
The Bank of New York — New York, N.Y.

Registrars

for preference and common shares:
The Royal Trust Company — Halifax, N.S.; Saint John, N.B.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man.; Regina, Sask.; Calgary, Alta.; Vancouver, B.C.

for common shares only:
The Bank of New York — New York, N.Y.

Les actionnaires qui préféreraient recevoir leurs rapports en français voudront bien en aviser le Secrétaire de Domtar Limitée.

Report of the Directors to the Shareholders

The consolidated financial statements of Domtar Limited and its subsidiaries for the year ended December 31, 1971 and the report of the Auditors are submitted on behalf of your Board of Directors.

Sales and Profits
The profits for 1971 were substantially lower than those for the previous year. The major causes of the comparative decline in net income from operations were the weak markets for pulp, newsprint and fine papers, the higher value of the Canadian dollar in terms of foreign currencies and the persistent pressure on profit margins due to the continuing rise in costs. In addition, certain revenues relating to the Company's pulp mill and chemical plant at Lebel-sur-Quévillon, Quebec, were, under agreements reached with the Federal and Quebec tax authorities, tax-exempt for the first nine months of 1970 while no such arrangements were applicable during 1971. All these factors more than offset the greater profits earned in 1971 by the Chemicals, Construction Materials and Packaging companies.

Net income before deducting extraordinary items amounted to $10.5 million or 67 cents per common share. The comparable figures for 1970 were $17.6 million and $1.17 respectively. After deducting extraordinary items of $8.7 million, net income for 1971 was $1.8 million or 8 cents per common share.

The proportionate decline in cash flow was much less than in net income from operations. In 1971, cash flow amounted to $41.0 million compared with $42.8 million for 1970, a reduction of only 4% despite the lower operating profits of the paper group.

Sales totalled $516.4 million in 1971, surpassing the half billion mark for the first time in the history of the Company. The following table provides an analysis of sales by the three product groups for the years 1970 and 1971:

	1971 $ Millions	%	1970 $ Millions	%
Pulp and Paper	$338.5	65.6	$335.7	69.2
Construction Materials	97.7	18.9	80.5	16.6
Chemicals	80.2	15.5	68.7	14.2
	$516.4	100.0	$484.9	100.0

In the Pulp and Paper group of companies, Packaging was the only one to show an increase in profits. The results of the others were considerably lower than has been experienced over the recent past.

The Construction Materials company felt the favorable impact of the record number of housing starts in 1971. Despite a poor first quarter, profits for the year were substantially higher than in 1970.

In line with greater sales, the 1971 operating profit of the Chemicals company increased significantly.

Extraordinary Items
The decline in the fortunes of paper companies has been particularly severe in Italy. The two Italian companies in which Domtar has equity investments are no exception. After a business assesment of these investments and because of the Company's commitments elsewhere and of possible investment opportunities in other fields, the Directors have concluded that it would not be advisable for the Company to invest further funds in these two companies and have considered it prudent to provide in the 1971 accounts for write-down of these shares to a nominal sum. This is reflected in the extraordinary charge against profits in the Consolidated Statement of Net Income and in a reduction of Other Investments and Advances

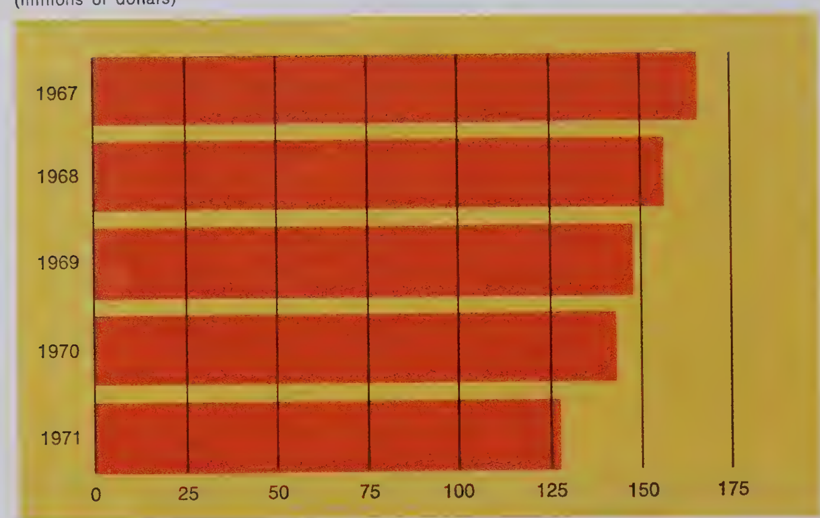
1971 Sales Distribution by Market Area

appearing in the Consolidated Balance Sheet from the amount shown at the end of 1970.

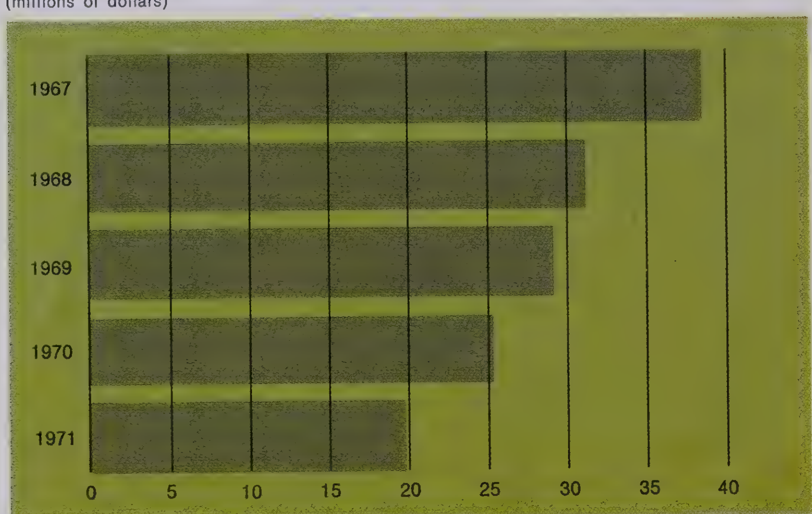
Furthermore, the Company has publicly announced that during 1972 it will discontinue the operations of the sulphite pulp mill, the caustic and chlorine plant and the vanillin facilities, all of which are located in Cornwall, Ontario, and will close down the phthalic anhydride plant in Toronto. A provision of $950 thousand has been made for these decisions in the 1971 accounts.

Under previous accounting methods, these extraordinary items would have been applied against earned surplus but under current practices, set out in the bulletins of the Canadian Institute of Chartered Accountants, they must now be charged against profits. Accordingly, the income for 1971 has been reduced by $8.7 million or 59 cents per common share for these items; this reduction did not affect the Company's cash flow for 1971.

Long-Term Debt
(millions of dollars)



Pulpwood Inventories and Advances on Pulpwood Operations
(millions of dollars)



Taxes
Due to the lower level of earnings, current income taxes charged against 1971 profits amounted to $4.6 million compared with $10.4 million the previous year. However, as the special income tax arrangements relating to the pulp mill and chemical plant at Lebel-sur-Quévillon came to an end on September 30, 1970, the effective consolidated income tax rate for 1971 was 44.3% compared with 33.2% for 1970.

At the end of 1971, income and other taxes due governments amounted to $1.5 million as against $5.6 million at the same date the previous year.

Capital and Minority Interests
In November, shareholders were notified that the Boards of Directors of Domtar Limited and Howard Smith Paper Mills, Limited had concluded that it would be in the best interests of all classes of shareholders of each company for the two companies to amalgamate and continue as one combined company. In December, shareholders approved the amalgamation which was then confirmed by Letters Patent with an effective date as of the close of business on December 31, 1971.

The reduction in the amount shown under Minority Interests for the common share equity of subsidiary companies in the Consolidated Balance Sheet reflects, primarily, the results of the offer made in November by St. Lawrence Corporation Limited, a subsidiary of Domtar Limited, for those shares of Hinde and Dauch Limited not then owned by St. Lawrence. Of the 360,000 issued common shares of Hinde and Dauch, only 255 shares were held by minority interests at the end of January, 1972.

Dividends
The regular dividends of $1.00 per preference share and 60 cents per common share were paid in 1971. Canadian holders of the common and preference shares are entitled under the Canadian Income Tax Act to a depletion allowance of 20% on dividends received by them in 1971.

Funded Debt
Total funded debt outstanding at December 31, 1971 amounted to $134.2 million, a decrease of $8.1 million from the amount outstanding at the end of the prior year. The sum of $7.1 million shown in the Balance Sheet under current liabilities as Funded Debt due within one year represents the balance of the 5% Series "A" and the 4¾% Series "B" first mortgage sinking fund bonds of St. Lawrence Corporation Limited which become payable on April 15, 1972.

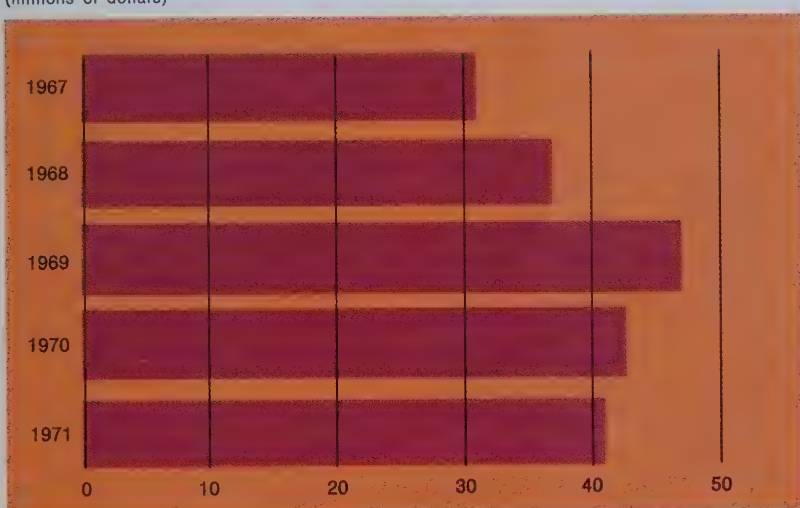
Fixed Assets
In view of the reduced profits, a number of projects were deferred in 1971. Net additions to fixed assets amounted to $23.7 million during the year compared with $39.0 million in 1970 and the estimate for 1971

of $35 million mentioned in last year's Annual Report. In 1971, about one quarter of total capital expenditures related to pollution abatement programs. Some $30 million is expected to be spent on fixed capital additions in 1972.

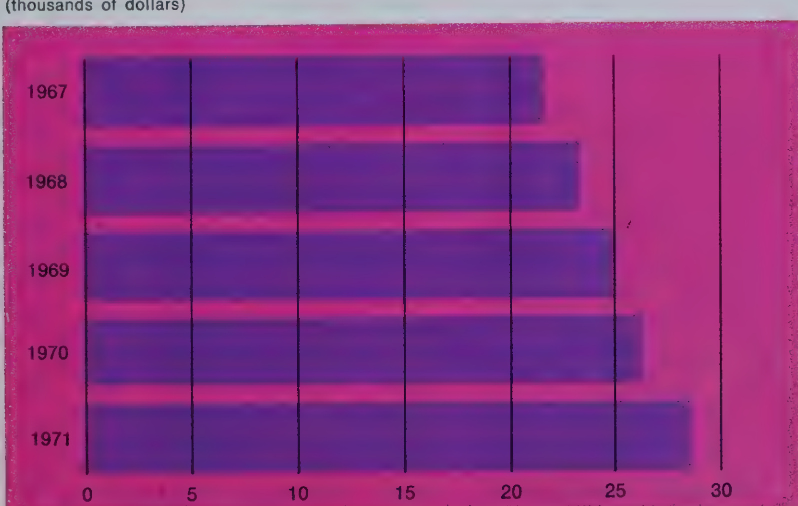
Working Capital
The working capital position continues to remain healthy with a ratio of current assets to current liabilities of 3 to 1 at the end of 1971. During the year, inventories of pulpwood were further reduced by $5.6 million. As measured by "quick assets" consisting of cash, short term investments and receivables less all current liabilities, the liquid position of the Company at the end of 1971 was $35 million, the same as it was at the end of the prior year.

Although profits were lower in 1971 and substantial outlays were made for plant and equipment, for the reduction of funded debt and for the purchase of minority interests in Hinde and Dauch, the net cash position (cash and short term investments less bank indebtedness) at the end of the year was appreciably higher than at the end of 1970 and amounted to $9.4 million compared with $7.3 million at December 31, 1970.

Cash Flow
(millions of dollars)



Dollar Sales per Employee —
(thousands of dollars)



Labor Relations
Fifty collective agreements were renegotiated during the year, with the annual increase in the total continuing cost of wages and fringes averaging 8.87%. It is evident that settlements continue to be inflationary.

The bargaining process was protracted, crisis oriented and involved four legal strikes with a loss of 14,271 man-days. The strike at the box plant in Quebec City had not been settled by the end of the year. As a sequel to an unauthorized work stoppage in late November, the Company has filed a grievance for damages against the Local and International Unions in the pulp mill at Lebel-sur-Quévillon.

Personnel Administration
Changes in legislation with respect to unemployment insurance and taxation necessitated considerable planning for major revisions to the benefits program for both non-negotiated and negotiated employees. The announcement of suspension of operations at various locations resulted in the development of specialized counselling activities to apprise affected employees of their entitlements under Company and government programs and to assist them in seeking suitable alternative employment.

The performance on accident prevention improved during the year.

Research
The Company continued its active research program at Senneville, Quebec. The research staff gained in competence and experience and by working closely with personnel in other areas of the Company they were able to select and develop valuable research projects. A large percentage of these is of immediate interest to the Company while a number of others are of longer term and are concerned with the development of new products and processes. The new plant at Cornwall producing CEL-U-CON® 25, a noncombustible insulation board, is an example of the value of an effective research program: the process is based on research work done at the Company's Senneville laboratories.

An increasing amount of research effort is being directed towards the development of economical processes for the abatement of air and water pollution and the development of marketable products from such materials as bark, waste paper and pulp mill effluents. A multi-disciplinary team with competence in microbiology, chemistry, physics and engineering is now working on these problems.

For several research projects, the Company receives financial assistance from the Federal Government under the Industrial Research Assistance Program.

Pollution Abatement
The extensive program for pollution abatement has continued with major in-plant and out-plant facilities coming on line during 1971. A number of these are referred to in the Report on Operations. Total expenditures in 1971 were $6 million.

Several research projects are now going forward to ensure that advanced technology is used in the design of efficient facilities for pollution abatement and investigations are being carried out concerning the effectiveness of various treatments on the environment. For example, the Company has successfully completed a research program dealing with the effect of pulp mill effluents on the taste and odor of water and fish and engineering is now underway for the implementation of the research findings. This project was largely financed by the Federal Government through a joint government and industry committee, the Committee for Pollution Abatement Research.

Prospects for 1972
The level of business activity in Canada is expected to improve during 1972. Leading economic indicators appear to confirm that the substantial growth in real output that became evident in the latter part of 1971 will continue into 1972. The Federal Governments of both Canada and the United States are pursuing policies of economic expansion. The arrangements made last December in the international monetary field are encouraging and further progress may be expected during 1972 although it is by no means certain. A stable international monetary system is especially important for companies trading in world markets.

In 1972, the Packaging company is expected to maintain or slightly improve upon its present level of profitability. The Fine Papers company will continue to face strong competition in both its domestic and export markets; any increase in its operating profits will result from productivity gains and steps currently underway to reduce costs. While demand for newsprint may be higher in 1972, an improvement in the profit performance of the Newsprint company will depend upon the successful completion of its rationalisation program now in progress and from further projects aimed at reducing costs. Because of the continuing and significant imbalance between supply and demand, the outlook for pulp is not encouraging.

The level of expenditures on new residential construction in 1972 is anticipated to be above that for 1971. The strength registered in the second half of 1971 will carry over into 1972 and new housing starts should approach or surpass the record achieved in 1971. In these circumstances, the Construction Materials company is expected to show improved profits in 1972.

Earnings of the Chemicals company are anticipated to show a further but more moderate gain in 1972.

In view of the foregoing, prospects for 1972 suggest a modest improvement in operating results.

Board of Directors
Early in 1972, Mr. George H. Dobbie of Galt, Ontario, asked to retire as a Director. The Board has regretfully accepted his resignation. Mr. Dobbie was a Director of Gypsum, Lime and Alabastine, Canada, Limited from August 29, 1951 until early 1959 when the assets and business of that company were acquired by Domtar. He was elected to the Board of your Company on April 13, 1959.

Appreciation
The Directors wish to express their appreciation for the contribution made by all those employees whose industry, loyalty and support continue to be given to the Company during a challenging economic period.

On behalf of the Board

T. N. Beaupré

T. N. Beaupré
Chairman of the Board and President

Montreal, Quebec
March 10, 1972.

Report on Operations

Domtar Pulp & Paper Products Ltd.

Domtar Woodlands Limited
A. S. Fleming
Vice-President and General Manager

During 1971, major efforts were directed at containing the upward pressures on wood costs and, to this end, the company was moderately successful. With total deliveries down by 5% compared with 1970, cost per oven dry ton of fibre fell 3%, marking the third year in a row that overall cost reductions were achieved. Major savings resulted from the successful use of sawdust and shavings at the Red Rock, Ontario, mill; the balance was attributable to production economies in Domtar's woods operations and judicious purchasing of wood from the private sector. Sawmill waste now accounts for 32% of Domtar's total mill fibre consumption.

Investment in pulpwood inventories decreased by a further 22% in 1971 to $20 million; four years ago, the comparable figure was over $38 million.

Capital expenditures were reduced by 62% in relation to those in 1970 in order to provide funds for priority projects such as pollution abatement. Despite this severe cutback, emphasis was maintained on new production equipment which has the potential for significant savings in wood costs. It is felt that, when capital funds are available, Woodlands will be in position to exploit this new equipment to its utmost advantage.

In the environmental area, an Advisory Committee appointed by the Ontario Government recommended that commercial logging operations in Quetico Provincial Park be discontinued and that Jim Mathieu Lumber Limited (a wholly owned Domtar subsidiary) be given alternate sources of timber in exchange for its 470 square miles in the park. The government accepted the recommendation in May and undertook to provide a comparable area for logging, complete with roads and camps. Details have not yet been finalized.

In Quebec, the James Bay development project, formally announced in 1971, promises to have a major impact on the wood supply for the Lebel-sur-Quévillon pulp mill. Substantial quantities of wood on the existing Quévillon limits will have to be salvaged ahead of the flooding. The necessary steps are being taken to maintain liaison with James Bay Development Corporation and the Provincial Government in order to ensure that the interests of the company and of the employees in the Quévillon area are fully considered in the long-range planning for this project.

It is gratifying to note that the financial problems of the industry in Eastern Canada have been recognized by the Provincial Governments in Ontario and Quebec in tangible form with the introduction of schemes to reduce the payments to the government associated with wood harvesting operations.

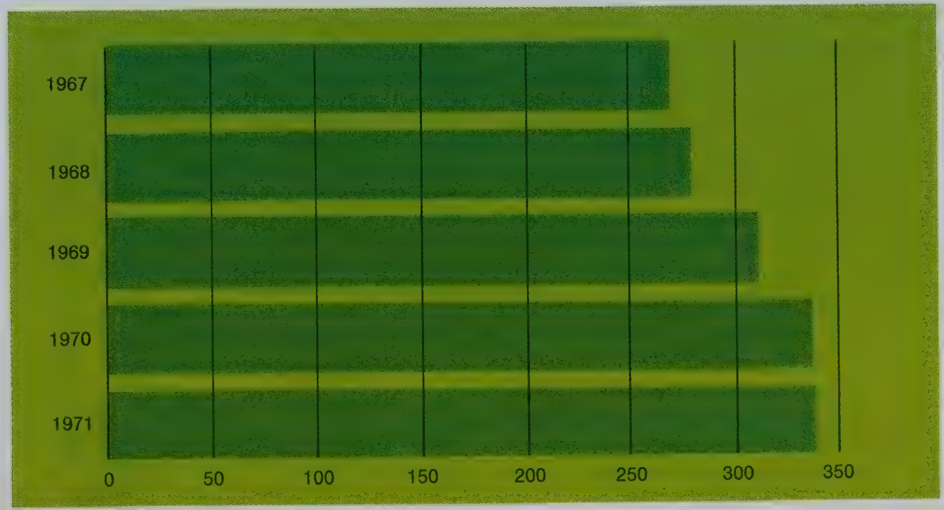
Domtar Pulp Limited
A. S. Fleming
Vice-President and General Manager

The slackening demand for pulp noted in late 1970 continued throughout 1971 as the industry once again faced a soft market brought on by a generally reduced rate of world economic activity, a major reduction in inventories in the buyers' hands and excess capacity. These have resulted in a condition of extreme oversupply. Record inventories at producing mills throughout the Western world caused widespread shutdowns. Inventory build-up at Lebel-sur-Quévillon necessitated a fifteen day shutdown at mid-year. Throughout the world, the market pulp sector of the industry operated at 78% of capacity, the worst performance in many years. With 80% of our sales in United States currency, the strength of the Canadian dollar affected profits significantly. Another major factor was an erosion in prices resulting from the supply/demand imbalance. The health of the economy in the United States has an important bearing on the performance of the pulp market. Recent moves by the American government to reverse the damaging trends in the economy are expected to create a climate for resumption of upward growth in late 1972.

Market sales for 1971 were 223,300 tons, down from the peak 1970 volume of 297,400 tons. On the other hand, a greater volume of Domtar pulp was consumed within Domtar in 1971. Operation of the mill at Lebel-sur-Quévillon continued to improve, particularly during the first half of the year. A new average daily record of 795 tons was set during the month of February. On March 7, a single day production record of 1,019 tons was established. Although operations in the first six months were nearly at design capacity, performance in the second half was marred by a series of operating problems and by an illegal work stoppage. An extensive rebuilding program in the chemical plant supplying the mill will be completed in 1972 and will improve reliability and costs. The mill meets the current effluent standards of the Quebec Water Board with respect to suspended solids. Roughly $900,000 was spent for the improvement of mill operating equipment.

The Town of Lebel-sur-Quévillon continues apace in its development. The Provincial Government has made a $500,000 grant for construction of a permanent hospital. Unfortunately, paving of the main highway from Senneterre will not be completed before 1973. Activity on the James Bay hydro-electric project to the north and west of Lebel-sur-Quévillon will

Pulp and Paper Products Sales
(millions of dollars)



undoubtedly be a force for growth of the whole area in the mid to late seventies.

Principal Products:
Bleached and unbleached softwood and hardwood sulphate pulp; semi-bleached softwood sulphate pulp; unbleached sulphite pulp.

Domtar Newsprint Limited
W. D. Davidson
Vice-President and General Manager

The newsprint capacity increase referred to in last year's report materialized as predicted and, when coupled with decreased demand for newsprint grades and sulphite pulp in the United States and off-shore markets, produced disappointing results throughout the year. Profits were also detrimentally affected by the strength of the Canadian dollar and the continued escalation in costs.

Increased shipments of newsprint to the United States and of newsprint and coated paper in Canada were offset by major reductions in the sales of those commodities to the off-shore markets, particularly the United Kingdom and Argentina. Sales of groundwood specialties and publication grade coated papers represented about 13% of total sales.

Excess capacity adversely affected prices throughout the first quarter and the new dimensions of the United States economic policies delayed price increases until early 1972. The 10% duty surcharge imposed by the United States on August 16 affected our planned expansion of groundwood specialty grades in this market.

During the summer months, all mills were forced to schedule production interruptions of from five to ten days to balance inventories to the lower demand experienced. The sulphite mill at Donnacona, Quebec, was unable to operate at planned capacity for the latter half of the year.

The average operating rate of our mills was 83% in 1971, slightly better than the industry average in Canada. Lower production requirements coupled with the need to reduce manufacturing costs and increase productivity resulted in the rationalization program announced in September to increase the operating rates of our most profitable facilities and to suspend newsgrade production for an indefinite period on four of the six paper machines at Trois-Rivières, Quebec, in March, 1972. It is expected that the remaining eight paper machines in the company will operate at capacity in 1972.

At Donnacona, a new groundwood bleach plant and improvements to the No. 3 paper machine have been completed and the manufacture of high brightness groundwood specialty grades is now being transferred from Trois-Rivières to that location.

Cost reduction programs were continued at all mills with major efforts being made to reduce paper mill and mechanical pulp mill costs. The outlook for 1972 will require continued emphasis on cost-reduction programs in all mills.

The installation of an effluent clarifier in the Trois-Rivières mill was completed in 1971. The three Quebec mills are now meeting current government pollution control standards.

Capital expenditures in the newsprint mills totalled $5 million in 1971. Of this amount, pollution control accounted for $1.5 million and $150 thousand was spent on improving fire prevention systems. Many lesser projects were completed which were implemented to reduce costs, improve quality or maintain facilities.

1. The installation of clarifiers to remove suspended solids from the effluent was completed in 1971 at Trois-Rivières, Quebec (photo above) and St. Catharines, Ontario. Similar external treatment facilities will be built in 1972 at Beauharnois, Quebec and Cornwall, Ontario.

The year ahead is viewed with modest optimism. Some additional industry capacity will be brought into service during the year. More normal demand growth is anticipated but pricing pressures will continue during the early part of the year. However, an improvement in profits is anticipated in 1972 as a result of our rationalization program.

Principal Products:
Standard and specialty newsprint; coated publication grade and directory papers; sulphite pulp.

Domtar Fine Papers Ltd.
J. H. Robertson
Vice-President and General Manager

Higher sales were offset by a sharp erosion in profitability brought about by higher costs greatly in excess of increased revenues.

2

3

The volume of paper sold in the Canadian market continued to increase during the year but competitive factors forced a reduction in prices. The volume of imported papers from the United States increased markedly.

Decreased profits resulted from a combination of price reductions and increased costs for raw materials, freight, fuel, labor, pollution abatement and municipal taxes.

As the leading Canadian exporter of fine papers to overseas markets, not only did we substantially increase our share of industry exports but the 1971 level established a new record.

2. Among the many technical improvements at Domtar paper mills during 1971 was the installation at the St. Catharines fine papers mill of a shaftless winder, the first in Canada. A removable lightweight stub and spacer (shown on the right) have replaced the traditional full-length core shaft.

3. The use of sawdust and shavings in the production of linerboard by Domtar at Red Rock, Ontario has meant not only a new source of revenue for lumber processing firms in Northwestern Ontario but also cleaner air for cities like Thunder Bay as a result of the shutdown of the lumber companies' sawdust burners.

Prospects for 1972 are encouraging despite some depressed markets, fluctuation in currency values and worldwide over-capacity in pulp and paper products.

Sales to the United States market increased significantly for the year as a whole, although imposition of the 10% surcharge in August resulted in a considerable reduction in shipments during the latter half of 1971. The surcharge, along with the firming of the Canadian dollar and soft market conditions, resulted in disappointing profit contributions from sales to the United States. The significant amount of surcharge payments absorbed in order to protect the market developed over the past few years were partially offset by grants under the Canadian Employment Support Act. For 1972, sales to the United States market will be curtailed with emphasis on obtaining a better return on the sales dollar.

The United Kingdom merchant operations showed a profit for the year 1971 after considerable re-alignment and re-organization. During the year, the London outlet moved into a more modern warehouse. The merchant chain is in a better position to meet the change in market environment which will be occasioned by the entry of the United Kingdom into the European Common Market in January, 1973.

In Canada, the operations of Buntin Reid Paper Co. Limited, acquired in 1970, were integrated smoothly into the organization. This company is a substantial addition to the network of distribution outlets for our diversified line of papers.

The program of minimizing air and water pollution was continued with major projects being completed at Georgetown and St. Catharines, Ontario, while in-plant improvements were made at Cornwall, Ontario and Windsor and Beauharnois, Quebec. Improvement of fire protection systems was completed at Beauharnois, Cornwall and Windsor. Stock preparation facilities at the plant at Don Valley, Ontario, were modernized and the steam plant converted to natural gas.

At the end of the year, following a thorough economic study, it was decided that operation of the sulphite pulp mill, the vanillin plant and the caustic and chlorine plant at the Cornwall mill would be discontinued at the end of April, 1972. The rapid escalation in operating costs in the face of static or declining revenues was the major factor in reaching this decision.

The concern of the public with regard to the problem of waste re-use was recognized in a company booklet entitled "Paper from Waste". It provided a realistic look at the problem, what the company is doing to use large quantities of paper and other fibrous wastes and what the opportunities are to do more. Included was a chart listing the company's "Ecology Grades" and giving the percentages ranging from 15% to 100% of recycled and/or reclaimed waste fibre contained in these grades.

The outlook for 1972 is that further efforts will be required to improve efficiencies and the marketing posture.

Principal Products:
Fine, coated and specialty printing and business papers for the printing trade and business, including rag and sulphite bonds; ledgers and envelope papers; lightweight and duplicating papers; book and writing papers; offset, text and cover papers; bristols and tags; coated papers and boards; black line, chart, carbonizing and drawing papers; cigarette papers; banknote and safety cheque papers; construction and poster papers for schools; glassine, grease-proof and other papers for food packaging.

Domtar Packaging Limited
W. R. Lawson
Vice-President and General Manager

In the somewhat mixed economic conditions prevailing in Canada during 1971, our packaging operations fared quite well. Generally speaking, all facilities operated at near capacity levels and slightly increased sales were achieved over those in 1970.

The management structure of the Packaging company was re-organized in May 1970, so that 1971 was the first full year featuring the complete integration of all Domtar's packaging interests and their supporting pulp and paper mills into Domtar Packaging Limited. The new structure is working very effectively and has helped provide the framework in which substantially improved efficiency and cost performance has produced significantly increased operating profits.

Market conditions in all sectors of the business were extremely competitive in 1971. It was not possible to achieve price increases adequate to offset the continuing escalation in costs, particularly in wages and salaries. While over 95% of our packaging sales are made in Canada, our markets are affected by world, and particularly United States, economic conditions. We are hopeful that an increasing tempo of business activity in the United States will result in supply/demand conditions which will permit us to restore more realistic profit levels during 1972.

During 1971, we began to feel the benefit of capital investment programs undertaken in 1970. The project for utilization of heretofore waste sawdust and shavings and the recovery of pulping chemicals at Red Rock, Ontario, was completed about mid-year. The additional corrugating medium production capacity at East Angus, Quebec, came on stream during 1971. We had the benefit for the full year from the operations of Superior Box Limited, a fine corrugated container manufacturer at Kitchener, Ontario, which was acquired in 1970. This company has fitted well into the Domtar operations, is running smoothly and is currently undergoing a modest expansion of capacity.

For many years the company operated a folding carton plant in Toronto. This operation never achieved satisfactory results. In the belief that it would be better served in a company with proven performance in this rather specialized field, the plant was sold to the Lawson & Jones interests near the end of 1971.

The mills and plants of the Packaging company continue their progress in improving standards of pollution abatement. The Trenton mill has completed the first stage of a project to reduce still further the organic and oxygen demand levels of its effluents. The total cost of the project will be approximately $1,000,000 and will be completed in 1973. Installation of external treatment facilities at the Red Rock mill will proceed in 1972. Further in-plant improvements are planned for 1972 at East Angus.

The Packaging company enters 1972 at a buoyant level of activity and earnings. We anticipate increasing opportunities for growing levels of profitable investment in this segment of Domtar's operations.

Principal Products:
Linerboard, corrugating medium, corrugated shipping containers, kraft papers and boxboards for conversion; packaging and wrapping papers for the consumer trades; grocery and other paper bags; towelling and tissue products; fibre cans and tubes.

Report on Operations

Domtar Construction Materials Ltd.

Spurred by a buoyant residential construction program, sales in 1971 were at a record level of $97.7 million with all major product lines recording gains over the prior year.

The pump-priming by the Federal Government started in the residential sector of the industry in the second half of 1970 was not required to the same degree in 1971. Commercial, institutional and industrial construction having slackened off, the mortgage money normally flowing to these sectors was directed to housing. All private lender groups were active in residential mortgages and this, coupled with an increased participation by some pension funds, created the strongest residential money supply in the post-war period. The availability of funds, the direct home owner grants in British Columbia and Saskatchewan, the HOME program in Ontario, the home owner municipal tax rebate in British Columbia, the subsidized interest rate in Alberta and Quebec for low income and/or low cost housing combined to make 1971 a record year from the standpoint of housing starts — 233,600 units. Starts were 23% above the 1970 level and 10% above 1969, the previous record year.

It is also significant to note that there were 98,000 single family dwelling starts, the highest level since 1959, indicating that the numerous government programs are making it possible for a larger percentage of Canadians to achieve their aspiration for home ownership. However, from a social point of view, it is disappointing that, with total starts at a record level, the number of units provided for the low income group showed no increase over 1970.

Housing completions (also at a record level) totalled 201,200 units, which means that the effective market demand will not be really tested until 1972.

Total building contract awards increased by 13% in dollar value over 1970; however, taking inflation into account, the physical volume increase was approximately 7%. Total construction expenditures recorded the first true physical volume increase in the past five years. To some extent, this was achieved by fewer work stoppages from strikes in the construction trades. Activity in the commercial and industrial sectors was lower than anticipated; however, with some resurgence in the second half of the year and the time lag in this type of construction for the utilization of our products, the improving trend is encouraging.

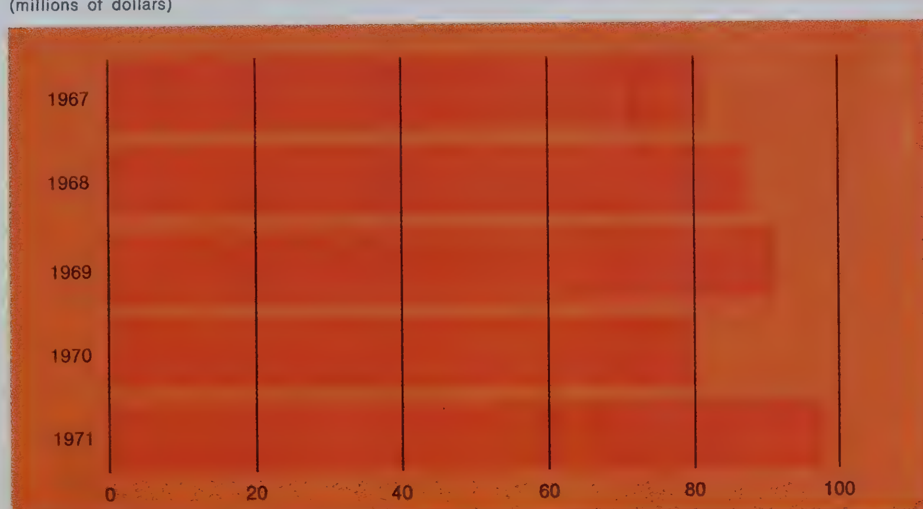
Operating profit recorded a marked improvement over 1970 but this must be attributed solely to increased volume as profit margins per unit generally continued to deteriorate. Notwithstanding the relatively strong market demand, selling price increases on several major product lines announced by our company failed to hold. To some extent, this was due to competition from non-traditional United States imports. The net result was inability to offset the increased costs of materials, labor and services. Profits were also adversely affected by strikes at two locations, notably the ten week strike at the fibreboard plant at Donnacona, Quebec. General expenses were well controlled and as a percentage of sales were significantly lower.

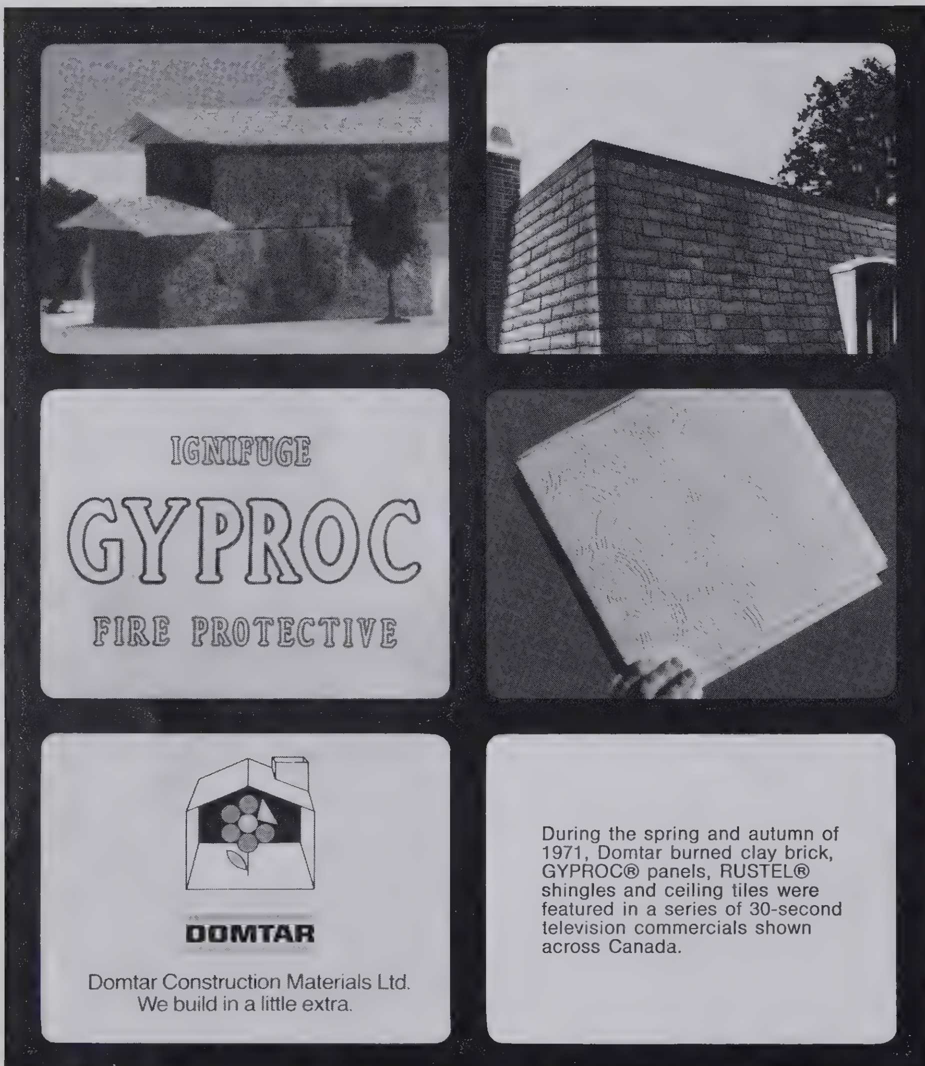
Production of "CEL-U-CON® 25", a noncombustible roofboard, was successfully undertaken at Cornwall, Ontario, utilizing a new process developed in conjunction with the Domtar Research Centre at Senneville, Quebec. This product broadens the company's opportunities in the institutional and commercial building sector with its demand for more fire resistant products.

The major expansion feature of the year was the start-up of the new ARBORITE® plant at Vaughan, Ontario. This new highly automated facility ensures this division's ability to service the growth market for high pressure

One of the more unusual applications of ARBORITE® decorative laminate: the wall, ceiling, table and counter surfaces in this railway caboose.

Construction Materials Sales
(millions of dollars)





During the spring and autumn of 1971, Domtar burned clay brick, GYPROC® panels, RUSTEL® shingles and ceiling tiles were featured in a series of 30-second television commercials shown across Canada.

laminates which offer highly accepted decorative and low maintenance features.

To improve marketing effectiveness, additional warehouse facilities were provided at the gypsum plants located at Caledonia, Ontario, and Montreal East and expanded distribution facilities were opened in Edmonton, Calgary and Winnipeg. Expenditures are continuing on automation of facilities in order to reduce costs and to minimize operations requiring intensive physical effort.

Declining mortgage interest rates, the current abundant supply of money and government emphasis on labor intensive industries all seem to assure a strong housing program in the first half of 1972. Continuance of this level of activity throughout the year will be contingent upon market demand. However, with builders undertaking an aggressive merchandising program, a further significant increase in residential expenditures is anticipated. Increased emphasis, as indicated in the budgetary measures announced by the Canadian Government in the last quarter of 1971, can be expected to broaden the availability of new housing for the lower income groups and to emphasize the rehabilitation of existing substandard housing. The easing of interest rates is projected to result in an increase in commercial construction. Institutional construction, which has lagged for the past few years, is expected to increase principally as a result of the efforts of governments to stimulate the economy.

Projections for 1972 are for increased earnings due to higher sales volumes, better price levels and continued improvement in efficiencies.

Principal Products:
Clay brick; acoustical plasters; fibre conduit and sewer and drainage pipe; asphalt shingles; roll roofing and siding; roof, sheathing and panel board and CEL-U-CON® 25 noncombustible roofboard; ceiling tiles and grid panels; linear ceiling systems; partition systems; gypsum lath, plank and wall board and wall panelling; ARBORITE® decorative and industrial plastic laminates; SIPOREX® and TOUGHTEX® lightweight cellular concrete products; HAYDITE® lightweight aggregate; plastic conduit.

®Registered Trade Mark

Report on Operations

Domtar Chemicals Limited

Sales for 1971 were 17% higher than in the previous year with a corresponding increase in operating profit. The results reflect the effects of the higher rate of capital investment in recent years.

The Sifto Salt division attained a record sales year. The impact of rising costs and lower prices in some segments of the industry reduced the operating profit margin below planned and 1970 levels. Sales to the chemical industry were adversely affected by the reduced demand of the chlor-alkali producers. However, some other industrial markets were buoyant and the recent expansion in facilities helped satisfy the demand. Work on the major project to increase output of the rock salt mine at Goderich, Ontario, continued throughout the year. Completion is now scheduled for the first quarter of 1973. The exploratory drilling program on Cape Breton Island in Nova Scotia, which was started in 1967, reached a new stage of development in 1971 when a pilot brine well was brought into operation. Further work is planned to begin in April, 1972. The economic feasibility of a large scale production plant is yet to be determined.

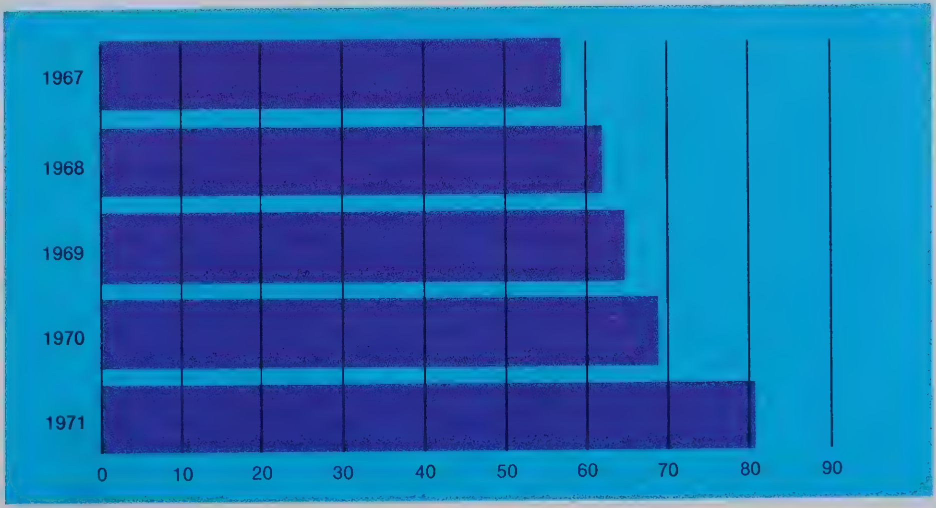
The Lime division benefited from the high activity of the steel industry during the first half of the year and some improvement in other industrial markets. As a result, sales were 13% higher than in 1970. The expansion programs at Beachville, Ontario, and Joliette, Quebec, were successfully completed and enabled the division to capitalize on market opportunities. Cost reduction programs at all plant locations and markedly improved operations helped to contain increasing costs of fuel and manpower. Intensive studies to determine the most effective pollution control measures were in progress during 1971. Implementation in 1972 and subsequent years will require substantial capital additions. On the whole, the division is now well equipped to supply the increase in market demand arising from an upturn in the steel, pulp and paper and construction industries.

Operating profit of the Wood Preserving division was lower than in 1970 although the volume of sales was 18% above the previous year's total. Higher raw material and manpower costs combined with an unfavorable product mix were the major contributing factors. Price erosion in some markets also contributed to the drop in profits. In the areas of research and market development, the division made encouraging advances. Further progress in treating methods, improved products and expansion of off-shore markets is expected in 1972.

The Tar & Chemical division showed some improvement in 1971 due to higher sales of primary products derived from the distillation of coal tar. Strong demand for pitch from the aluminum industry during the first half of the year and some strenghthening of other pitch and creosote markets offset the continuing losses from chemical products. The price of the major chemical product, phthalic anhydride, was depressed once more by low cost imports. Regretfully, a decision to close the Toronto chemical plant was made and announced on November 1. Operations will be phased out gradually and the plant will be shut down by mid-1972. The division pioneered the production of phthalic anhydride in Canada in 1941 and will continue to market the product on a resale basis. Growth of the Tar & Chemical business on a sound basis will be achieved by the investment of $3 million for the expansion of the Hamilton plant. During 1972, production capacity will be doubled. By the first quarter of 1973, the division will be capable of supplying the foreseeable future requirements of the Canadian aluminum and steel industries from a domestic raw material. Domtar's first venture in 1903 was a coal tar distillation plant in Sydney, Nova Scotia.

A $3 million expansion program will double the capacity of the coal tar plant at Hamilton, Ontario.

Chemical Sales
(millions of dollars)



Drilling the pilot brine well for SIFTO® salt at Kingsville, Cape Breton Island, Nova Scotia.

The Metal Powders division increased its sales and was successful in gaining a larger share of the North American market. However, the overcapacity in the industry supplying iron-based powders persisted and prices declined below the low levels prevailing in 1970 with the result that a substantial operating loss was incurred. In 1972, further sales gains and market penetration are expected but profits will not be realized unless a substantial price increase is possible.

Chemical Developments of Canada Limited increased its sales of surfactants and other specialty chemicals in 1971 and reported improved profits. Market position in manufactured and resale products was well maintained.

The diversified operations of Domtar Chemicals serve many different industries and a wide variety of markets. Its growth, therefore, depends largely on the health of the economy in Canada and the United States. On the assumption of a favorable economic climate, a modest increase in sales and profits is expected in 1972.

Principal Products:
SIFTO® salt; pressure-treated and fire-retardant wood; coal tar pitches and acids; creosote; naphthalene and phthalic anhydride; limestone; hydrated lime and quicklime; iron alloy powders; synthetic detergents; wetting agents; carboxymethylcellulose; dyestuffs and pigments.

®Registered Trade Mark

Consolidated Statement of Net Income

Year ended December 31

	1971	1970
Sales and revenues:		
Sales	$516,376,401	$484,937,840
Investment and sundry income	2,976,089	6,744,897
	519,352,490	491,682,737
Costs and expenses:		
Cost of sales and selling and administrative expenses	464,420,374	428,474,019
Depreciation	26,107,049	26,245,420
Interest on funded debt	8,239,075	8,601,330
Interest on other indebtedness	294,587	328,877
	499,061,085	463,649,646
Income before income taxes, minority interest and extraordinary items	20,291,405	28,033,091
Current income taxes	4,550,000	10,350,000
Deferred income taxes	4,430,000	(1,084,000)
Minority interest	810,966	1,149,446
	9,790,966	10,415,446
Income before extraordinary items	10,500,439	17,617,645
Extraordinary items — Note 2	8,700,000	—
Net income for the year	$ 1,800,439	$ 17,617,645
Earnings per common share before extraordinary items	$0.67	$1.17
Earnings per common share after extraordinary items	$0.08	$1.17

Consolidated Statement of Earned Surplus

Year ended December 31

	1971	1970
Earned surplus, balance at beginning of year	$102,565,949	$ 99,407,425
Excess of the par value of the preferred shares of Howard Smith Paper Mills, Limited over the par value of the preference shares of Domtar Limited, net of expenses	258,823	—
Adjustment resulting from review of depreciation practices	—	173,515
	102,824,772	99,233,910
Net income for the year	1,800,439	17,617,645
	104,625,211	116,851,555
Excess of cost of shares of subsidiary companies acquired in 1970 over the book value of their net assets	—	3,606,496
	104,625,211	113,245,059
Dividends on —		
Preference shares ($1 per share)	300,000	300,000
Preferred shares of Howard Smith Paper Mills, Limited, prior to amalgamation — Note 6	292,746	—
Common shares (per share 1971 — $0.60; 1970 — $0.70)	8,896,380	10,379,110
	9,489,126	10,679,110
Earned surplus, balance at end of year	$ 95,136,085	$102,565,949

Consolidated Balance Sheet

December 31

Assets

	1971	1970
Current assets:		
Cash and short-term investments	$ 11,427,106	$ 9,644,956
Receivables	84,369,027	86,558,598
Inventories of finished products, work-in-process, raw materials and supplies, at lower of cost and net realizable value	67,761,303	69,558,215
Pulpwood, at cost, and expenditures on woods operations	19,704,477	25,263,442
Prepaid expenses	1,840,786	2,135,070
	185,102,699	193,160,281
Investments and advances, at cost:		
Listed securities (quoted value — 1971 — $5,128,000; 1970 — $6,486,000)	13,319,969	13,319,969
Other investments and advances — Note 3	11,856,244	21,043,281
	25,176,213	34,363,250
Fixed assets, at cost:		
Land and water power rights	6,580,422	6,477,016
Plant, machinery, facilities and timber limits	633,356,450	627,686,116
	639,936,872	634,163,132
Less: Accumulated depreciation	340,221,325	330,077,197
	299,715,547	304,085,935
	$509,994,459	$531,609,466

APPROVED BY THE BOARD:

T. N. Beaupré, Director

C. W. Webster, Director

Liabilities

	1971	1970
Current liabilities:		
Bank indebtedness	$ 2,036,835	$ 2,317,960
Payables	47,907,017	50,372,682
Income and other taxes	1,459,556	5,570,736
Dividends payable	2,363,564	2,519,289
Funded debt due within one year	7,115,000	355,000
	60,881,972	61,135,667
Funded debt — Note 4	127,098,000	141,971,000
Deferred income taxes	67,503,000	64,043,000
Minority interests:		
Preferred shares of subsidiary company — Note 5	10,427,500	18,282,400
Common share equity in subsidiary companies	2,274,549	3,817,628
	12,702,049	22,100,028
Capital:		
Capital stock — Note 6		
$1 cumulative redeemable preference shares, par value $23.50, redeemable at $25 —		
Authorized — 600,000 shares		
Outstanding — 592,746 shares	13,929,531	7,050,000
Common shares without nominal or par value —		
Authorized — 25,000,000 shares		
Outstanding — 14,827,300 shares	132,743,822	132,743,822
Earned surplus	95,136,085	102,565,949
	241,809,438	242,359,771
	$509,994,459	$531,609,466

Notes to Consolidated Financial Statements

December 31, 1971

Note 1 - Consolidation:

The accompanying financial statements include the accounts of Domtar Limited and all its subsidiary companies.

Note 2 - Extraordinary Items:

In view of conditions prevailing in the European fine papers industry and as a consequence of a study made by the Company, it has been considered prudent to provide for a write-down of the Company's investment in the shares of two Italian companies to a nominal sum.	$7,750,000
The Company has also decided to provide for the closing of the sulphite pulp mill, the chlorine and caustic plant and the vanillin facilities, all of which form part of the fine papers mill at Cornwall, Ontario and for the closing of the phthalic anhydride plant in Toronto. These closings are planned for 1972. After giving effect to deferred income taxes of $1.004,000 and the appropriate depreciation, the write-down of the net book value of the buildings and equipment amounts to	950,000
	$8,700,000

Note 3 - Other Investments and Advances:

	December 31 1971	1970
Secured loans to the Trustees for employees under the company's stock purchase plan	$ 1,781,294	$ 2,215,290
Municipal bonds	6,276,000	6,555,410
Loans and mortgages	3,236,363	3,612,314
Shares	562,587	8,660,267
	$11,856,244	$21,043,281

Note 4 - Funded Debt:

	Maturity	December 31 1971	1970
Domtar Limited —			
Sinking fund debentures —			
5¼ % Series "A"	1978	$ 12,500,000	$ 15,000,000
6¼ % Series "B"	1980	7,575,000	8,925,000
5½ % Series "C"	1982	12,200,000	14,000,000
5¾ % Series "D"	1984	14,400,000	16,000,000
5⅝ % Series "E"	1990	35,000,000	35,000,000
6¾ % Series "F"	1987	35,000,000	35,000,000
St. Lawrence Corporation Limited —			
First mortgage sinking fund bonds —			
5% Series "A"	1972	5,357,000	6,336,000
4¾ % Series "B"	1972	1,948,000	2,304,000
5% Series "C"	1978	6,428,000	6,980,000
Sinking fund debentures —			
6¾ % Series "A"	1980	11,400,000	12,200,000
		141,808,000	151,745,000
Less: Held for sinking fund		7,595,000	9,419,000
		134,213,000	142,326,000
Balance of instalments due within one year included in current liabilities		7,115,000	355,000
		$127,098,000	$141,971,000

Approximate instalments due in each of the next five years: 1972 — $7,115,000; 1973 — $377,000; 1974 — $6,124,000; 1975 — $8,077,000; 1976 — $8,077,000.

Note 5 - Minority Interests — preferred shares of subsidiary company:

St. Lawrence Corporation Limited — 104,275 5% preferred shares of $100 each, redeemable at $101 (after purchase for redemption during year of 4,125 shares)		$10,427,500
Howard Smith Paper Mills, Limited — 146,373 $2 preferred shares of $50 each (after purchase for redemption during year of 2,475 shares)	$7,318,650	
Less: 146,373 shares which became 292,746 preference shares of Domtar Limited	7,318,650	—
		$10,427,500

Note 6 - Capital Stock:

On December 31, 1971, Letters Patent were granted confirming the amalgamation of Domtar Limited with a subsidiary, Howard Smith Paper Mills, Limited. The authorized share capital of the amalgamated company which was named Domtar Limited became 600,000 $1 cumulative redeemable preference shares, par value $23.50 redeemable at $25 and 25,000,000 common shares without nominal or par value.

As a result, 146,373 preferred shares of Howard Smith Paper Mills, Limited became 292,746 preference shares of Domtar Limited. Dividends paid during 1971 to the preferred shareholders of Howard Smith Paper Mills, Limited have been charged to earned surplus. In the 1970 comparative figures such dividends are included in minority interest in the consolidated statement of net income.

Note 7 - Pension Fund:

The Company and its subsidiaries have pension plans for their employees. The unfunded past service pension liability at December 31, 1971 approximates $8,487,000 and is being funded over the next nineteen years as recommended by the actuaries.

Note 8 - Information on Directors and Officers:

	Number Year ended December 31 1971	1970	Remuneration Year ended December 31 1971	1970
Directors	20	21	$ 84,491	$ 87,591
Officers	24	23	974,622	920,386
Officers who are also directors	1	1		

Note 9 - Sales by Class of Business:

	Year ended December 31 1971	1970
	(millions of dollars)	
Pulp and paper products	$ 338.5	$ 335.7
Construction materials	97.7	80.5
Chemicals	80.2	68.7
	$ 516.4	$ 484.9

Consolidated Statement of Source and Application of Funds

Year ended December 31

	1971	1970
Source of funds:		
Net income	$ 1,800,439	$ 17,617,645
Depreciation	26,107,049	26,245,420
Deferred income taxes	4,430,000	(1,084,000)
Extraordinary items	8,700,000	—
Cash flow from operations	41,037,488	42,779,065
Decrease in investments and advances	1,436,162	2,079,308
	42,473,650	44,858,373
Application of funds:		
Plant and equipment	23,655,786	38,964,137
Funded debt	14,873,000	5,128,000
Minority interest	2,079,329	1,131,375
Dividends on preference shares	592,746	300,000
Dividends on common shares	8,896,380	10,379,110
Amalgamation expenses	180,296	—
Excess of cost of shares of subsidiary companies acquired in 1970 over the book value of their net assets	—	3,606,496
	50,277,537	59,509,118
Decrease in working capital	7,803,887	14,650,745
Working capital at beginning of year	132,024,614	146,675,359
Working capital at end of year	$124,220,727	$132,024,614

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Domtar Limited and its subsidiaries as at December 31, 1971 and the consolidated statements of net income, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, February 1, 1972

Price Waterhouse & Co.
Chartered Accountants

Historical Review

Financial	1971	1970	1969	1968	1967	1966	1965
				(millions of dollars)			
Net fixed assets	**299.7**	304.1	290.9	291.3	306.2	316.0	280.4
Net working capital	**124.2**	132.0	146.7	143.7	118.3	77.7	116.3
Investments and advances	**25.2**	34.4	36.4	34.0	52.5	27.1	24.7
Total net assets	**449.1**	470.5	474.0	469.0	477.0	420.8	421.4
Represented by:							
Funded debt	**127.1**	142.0	147.1	155.7	165.4	137.2	144.0
Deferred income taxes	**67.5**	64.1	53.7	51.6	52.4	47.8	42.1
Minority interest	**12.7**	22.1	23.0	24.0	25.1	26.1	27.3
Shareholders' equity	**241.8**	242.3	250.2	237.7	234.1	209.7	208.0
	449.1	470.5	474.0	469.0	477.0	420.8	421.4
Sales and Revenues:							
Pulp and Paper	**338.5**	335.7	310.1	279.0	272.0	272.3	255.3
Chemicals	**80.2**	68.7	64.0	62.0	57.5	56.3	54.1
Construction Materials	**97.7**	80.5	90.7	86.4	81.0	84.1	80.8
Consumer Products	**—**	—	—	—	17.5	17.4	16.6
Other revenues	**3.0**	6.7	7.2	4.7	2.0	2.0	2.5
	519.4	491.6	472.0	432.1	430.0	432.1	409.3
Income before taxes	**19.5**	26.9	32.0	20.7	14.9	30.3	41.7
Current income taxes	**4.6**	10.4	9.9	8.6	6.0	4.0	3.5
Deferred income taxes	**4.4**	(1.1)	2.1	(0.7)	0.1	10.6	16.5
Net income	**10.5***	17.6	20.0	12.8	8.8	15.7	21.7
Cash flow	**41.0**	42.8	47.1	37.1	31.3	48.2	59.5
Capital expenditures	**23.7**	39.0	24.6	10.1	16.4	57.6	66.5
				$ Per Common Share			
Earnings	**0.67***	1.17	1.33	0.85	0.58	1.04	1.46
Dividends	**0.60**	0.70	0.60	0.60	0.90	1.00	0.90
Cash flow	**2.73**	2.86	3.16	2.51	2.11	3.27	4.05
Book value	**15.37**	15.87	16.40	15.69	15.49	13.82	13.74

*Before deducting extraordinary items of $8.7 million or $0.59 per common share.

Pulp and paper production (Tons)							
Newsprint	**467,791**	480,114	542,434	520,127	521,856	586,976	532,151
Kraft Paper and Board	**420,878**	413,883	388,675	364,800	388,912	378,394	435,705
Fine and Specialty Papers	**321,803**	299,998	250,380	214,700	204,525	207,572	179,529
Market Pulp	**223,300**	297,400	294,800	221,700	223,683	191,868	195,572
	1,433,772	1,491,395	1,476,289	1,321,327	1,338,976	1,364,810	1,342,957

The cover of this Annual Report was lithographed in Canada on Domtar "Byronic" Text Cover, White, brocade finish, 160 (M). The inside pages were lithographed on Domtar "Alliance Coated Offset", White, 200 (M).